Council of Australian Life Insurers

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Ms Laura Llewellyn
Corporations Branch
Market Conduct Division
Treasury
Langton Cres
Parkes ACT 2600

Via email climatereportingconsultation@treasury.gov.au

Dear Ms Llewellyn

Climate-related financial disclosure

Thank you for the opportunity to comment on Treasury's Consultation Paper on Climate-related financial disclosure.

The Council of Australian Life Insurers (**CALI**) was recently formed to support the Australian life insurance industry and its members, through dedicated representation, engagement and advocacy, to drive positive outcomes for customers, insurers and their partners.

CALI and the life insurance industry support strong action on climate change. CALI supports the Government's emissions reduction commitments of 43% by 2030 and net zero by 2050. CALI also supports the proposed introduction of a mandatory climate disclosure regime in Australia.

Critically, the life insurance sector is a lower risk sector as life insurers are generally not directly exposed to natural disaster risk in the same ways as other financial sector industries, especially general insurance. Further, the life insurance industry in Australia is not as advanced as banks and general insurers in developing consistent approaches to data collection and application of model scenarios. Sufficient time should be allowed for the industry, in consultation with APRA to develop appropriate metrics.

In the attached submission we make some suggestions regarding tailoring the policy settings for industries with lower risk profiles to climate change, and where climate risks are slower to crystalise.

Yours sincerely,

[redacted]

Chief Executive Officer

Council of Australian Life Insurers

Submission in response to Treasury Consultation Paper on Climate-related Financial Disclosure

Introduction

The Council of Australia Life Insurers (**CALI**) and the life insurance industry support strong action on climate change. CALI supports the Government's emissions reduction commitments of 43% by 2030 and net zero by 2050. CALI also supports the proposed reforms on Climate-related financial disclosure.

We welcome the opportunity for consultation on the design and implementation of standardised, internationally aligned, requirements for disclosure of climate-related financial risks.

CALI recognises climate change is one of the most pressing issues facing Australia, presenting with wide ranging risks to all sectors, including the global financial system. We also recognise the importance of transparency and accountability of large business and financial institutions and support the approach toward an internationally aligned disclosure framework. We particularly note the importance of this in relation to large institutions who are directly impacted by climate events or who are involved in climate-challenged industries.

An appropriate transition to such a framework in Australia is the focus of our response, suggesting a risk-level based approach to determining the nature of that transition and implementation of the reforms. CALI has also provided comment on specific consultation questions in addition to the points outlined below.

Implementing disclosure in life insurance

The Consultation Paper envisages a new reporting regime impacting insurers, which CALI supports in principle. However, the dynamics of climate change as an insurance risk are fundamentally different for life insurance compared to general insurance, and the reporting regime ought to distinguish between the different types of insurers.

Critically, the life insurance sector is a lower risk sector as life insurers are generally not directly exposed to natural disaster risk in the same ways as other financial sectors, especially general insurance and, to some extent, banking and credit. For life insurers, the insurance risk of climate change unfolds at a more manageable pace - i.e. over a number of years and decades. Some of the climate-related risks faced by life insurers and their insured population include:

- Increased seasonal mortality and morbidity due to increasing frequency and severity of extreme heat events;
- Mental health conditions caused or exacerbated by stress about climate change and in the aftermath of natural disasters ; and
- The potential for more rapid spread of infectious disease and the downstream impacts of pandemic diseases (for example, delayed diagnosis of other diseases such as cancer by delaying normal medical check-ups and access to appointments).

These incremental changes are emerging gradually. This allows for normal life insurance pricing cycles to gradually incorporate the impacts of climate change risk and adjust accordingly.

In contrast, general insurers are faced with the risk of unpredictable climate change-related natural disasters that increasingly generate sudden and significant insurance costs.

These significant differences in risk profiles in relation to climate risks, particularly physical risks, warrant a disclosure implementation approach that distinguishes between life insurers and general insurers to recognise the significantly different risk profiles of these sectors.

General challenges

Some life insurers are already directly or indirectly involved to some degree in climate related reporting as part of voluntary CSR reporting and/or global reporting requirements and have the resources and systems in place to manage this.

More broadly however, there are variations in life insurers' capacity to deal with the challenges associated with climate change reporting, including data collation, availability of skilled persons, and the development of internal systems and processes. Addressing these challenges requires time and a reasonable transition process to ensure that the market for skilled persons in addition to the other requirements has time to develop.

Further, the life insurance industry in Australia is not as advanced as banks and general insurers in developing consistent approaches to data collection and application of model scenarios. Metrics should be developed in consultation with APRA and the industry. They should also align with APRA's Prudential Practice Guide *CPG 299 Climate Change Financial Risks* and Climate Vulnerability Assessment project.

International alignment

CALI acknowledges the Government's commitment to introduce standardised, internationally aligned reporting requirements and the aim of providing a consistent approach to facilitate transparency and comparability for investors.

We agree with the need for a reporting regime to be closely aligned to international reforms, to maintain international competitiveness for capital and to enable multi-national firms to align with regulatory requirements of their overseas parent entities. For context, at present most life insurers and reinsurers operating in Australia are wholly or majority owned by multi-national institutions, headquartered in North America, Europe and Asia.

We note some of these international frameworks, such as the global standards being developed by the International Sustainability Standards Board (ISSB), are yet to be finalised and released.

Continuing consultation

CALI recognises the commitment from the Government to requiring businesses to make climate-related disclosures regarding governance, strategy, risk management, targets and metrics. We welcome continued engagement from the Government through consultation to assess and comment on the further detail regarding the nature and content of the obligations and the regulatory impact.

Responses to selected consultation questions

We provide our response to specific questions in the Consultation Paper below.

Question 2*: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?*

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

As outlined above, CALI supports a risk-level based phased approach with a later phase-in for sectors that have a lower exposure to climate change risk, such as life insurance.

Different levels of obligations could also be phased in to allow time for industry to develop processes and systems to collect and collate data, put in place appropriate governance frameworks and develop data credibility. This could involve stages such as developing governance structures, voluntary pilot reporting, submission of data and publication when data quality is sufficiently robust and consistent.

Similar phased approaches have been adopted by both APRA and ASIC when introducing new classes of regulatory data reporting.

Question 3*: To which entities should mandatory climate disclosures apply initially? 3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?*

In addition to distinguishing between large institutions and smaller ones, mandatory disclosures should apply initially to sectors with a higher climate-related risk. CALI also supports a phased approach in relation to larger institutions and would like further consultation on what the thresholds might be.

Question 4*: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards? 4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets? 4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?*

It is imperative that Australia's climate reporting requirements align with global standards. We note that several comparable jurisdictions have implemented, or intend to implement, disclosure rules that are based on the framework proposed by the Task Force on Climate-Related Financial Disclosure (**TCFD**), including the United States of America, the European Union, Hong Kong, Japan, New Zealand, Singapore, Switzerland, and the United Kingdom.

While recognising that that ISSB will build on the TCFD framework, CALI supports the direction for development of Australia's reporting regime to closely align with reforms in comparable jurisdictions. The regime should recognise the need for multi-national firms to align with parent owners and also support the competition for global capital.

An APRA Information Paper in Aug 2022 noted that of the regulated institutions surveyed, 69% voluntarily disclosed climate-related information, and 90% of those who disclosed had aligned their disclosure to the TCFD framework[1].

The ISSB standards are not yet finalised and it is therefore difficult to comment on the appropriateness of those standards. If ISSB standards are adopted, we note and support AASB commentary that ISSB standards should be used as a baseline with appropriate modifications for the Australian market[2].

Question 5: *What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?*

It is critical the new reporting regime should be the basis of all climate change-related financial disclosure and represent the single source of truth. The development of duplicative climate reporting requirements by other federal and state agencies should be avoided.

[1] *Information Paper: Climate risk self-assessment survey*, APRA Aug 2022

[2] *Project insights: Developing sustainability-related financial reporting standards in Australia*, AASB June 2022

Question 8*: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?*

As set out above, disclosure obligations should be proportionate to the risk of particular sectors, with phasing in of obligations also proportionate to risk.

In relation to assurance, CALI acknowledges its importance to achieve quality, comparable, credible results and to reduce risk of 'greenwashing'. Assurance processes would need to correspond to the phasing timeframes for each industry sector and to corresponding global developments, to determine a reasonable approach. The phasing aims to avoid onerous or expensive assurance requirements and to determine a common and consistent assurance approach. For this reason, lower risk sectors should not initially be subject to the full burden of external assurance, such as through a limited or selected approach or through additional transitional arrangements.

Question 9*: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks*

As mentioned, disclosure requirements should closely align with international standards within the Australian context. The international approach regarding Scope 3 emissions is not yet aligned. We note that US Securities Exchange Commission proposed Rule[3] only mandates disclosure of Scope 3 emissions if they are material or if the organisation has targets in this regard. To date, ISSB has confirmed Scope 3 emissions disclosure requirements, however acknowledge the need for "relief provisions" to help companies in accounting for and meeting these requirements. Suggested provisions include additional time and phasing for Scope 3 disclosures and 'safe harbour' provisions[4].

We note that there are significant challenges to collecting and collating data and reporting Scope 3 emissions, as well as the need to have access to scarce expertise and the challenges around assumption variability. However, it is expected that the quality of the data and the approach to calculations and assurance assumptions are expected to improve over time. CALI therefore recommends an additional staged approach to Scope 3 emissions along risk exposure lines as well as in line with the thinking behind the ISSB relief positions.

Question 10: *Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?*

CALI recognises that specific industry measures may improve both efficiency and comparability. In relation to APRA-regulated entities, metrics need to be developed in consultation with APRA and the industry. They should also align with APRA's Prudential Practice Guide *CPG 299 Climate Change Financial Risks* and Climate Vulnerability Assessment project.

Question 12 *Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?*

As above, lower risk sectors should have the flexibility to be phased in later and be subject to targeted initial external assurance.

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[3] *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, US Securities and Exchange Commission 2022

[4] *ISSB News Announcement: ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions,* ISSB October 2022

Question 15*: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?*

Section 769C of the Corporations Act (and other provisions in both the Corporations Act and ASIC Act) deem statements about future matters to be misleading unless the discloser has reasonable grounds to make the statement.

Many aspects of estimating the financial impacts of climate risk are uncertain and are dependent on assumptions and projections. In some cases, the estimates may be based on proxies in adjacent industries or comparable jurisdictions. Reliance may also need to be placed on information from third parties such as scope 3 emissions information. In the context of mandated disclosure, and in light of the inherent uncertainties in making statements about future climate change risk, it would be appropriate to remove this statutory presumption. It could be replaced by a statutory norm that requires statements about future climate matters within mandatory disclosure to be based on reasonable grounds in all the circumstances. The Government should also consider how to strike the right balance between disclosures being reasonable and potential litigation and enforcement risks that may arise in a nascent regime, with uncertain inputs.

Question 18: *Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?*

Digital submission of data would be preferable.